

Message Text

CONFIDENTIAL

PAGE 01 LONDON 14461 01 OF 02 061459Z

42

ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 INR-01 CIAE-00 TRSE-00

FRB-01 RSC-01 ISO-00 /016 W
----- 005689

R 061448Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5417

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 14461

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: UK BANKING SUPERVISION; POSSIBLE CHANGES IN
BRITISH REGULATORY STRUCTURE; OFFICIAL VIEWS ON
ROLE U.S. BANKS IN LONDON

SUMMARY: BANK OF ENGLAND (BOE) OFFICIALS CONSIDER THAT NO ONE CAN EXPECT AS A MATTER OF RIGHT THAT BANK OF ENGLAND FUNDS OR UK RESERVES WILL BE USED TO AID A FOREIGN OWNED BANK IN LONDON. BOE, H.M. TREASURY AND OTHER MINISTRIES CONSIDERING POSSIBLE MEANS TO TIGHTEN BANKING AND FINANCIAL REGULATION AND SUPERVISION. LABOR MP JOHN GILBERT, FINANCIAL SECRETARY, H.M. TREASURY HAS GONE OUT OF HIS WAY TO REASSURE U.S. BANKS THAT U.K. RECOGNIZES THEIR IMPORTANCE AND CONTRIBUTION TO ROLE OF LONDON AS INTERNATIONAL FINANCIAL CENTER. END SUMMARY.

1. DURING PAST MONTH, SENIOR OFFICIALS AT BANK OF ENGLAND CONCERNED WITH SUPERVISION AND REGULATION HAVE DISCUSSED CURRENT BANKING SUPERVISION ISSUES WITH TREASURY REPS. THIS MESSAGE SUMMARIZES THEIR VIEWS, AS WELL AS RECENT POSITION OF UK TREASURY OFFICIAL. COMMENTING ON BANK OF ENGLAND REQUIREMENT THAT PARENTS OF CONSORTIUM BANKS ACCEPT RESPONSIBILITY FOR CONSORTIUMS' ACTIONS (LONDON
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 14461 01 OF 02 061459Z

12423), SOURCES EXPLAINED THAT BANK OF ENGLAND COULD NOT

CONSIDER PLAYING ROLE OF LENDER OF LAST RESORT EVEN IF IT WISHED TO DO SO SHOULD A CONSORTIUM BANK FAIL OR RUN INTO SERIOUS DIFFICULTIES. WHITEHALL, I.E., THE POLITICAL CONSIDERATIONS INVOLVED, WOULD NOT PERMIT BANK OF ENGLAND USING UK EXCHANGE RESERVES TO FINANCE WHAT IS ESSENTIALLY THE RESPONSIBILITY OF FOREIGN PARENT BANKS. SOURCES ACKNOWLEDGED THAT THERE HAD BEEN DIFFERING POINTS OF VIEW ON CORRECTNESS OF BANK OF ENGLAND APPROACH IN INTERNATIONAL CENTRAL BANKING COMMUNITY, BUT BANK OF ENGLAND CONSIDERED IT HAD NO CHOICE. ACCORDING TO SOURCE, ONLY ONE US PARENT OF A LONDON CONSORTIUM BANK HAS THUS FAR INDICATED DIFFICULTIES WITH BANK OF ENGLAND'S ACTION.

2. BANK OF ENGLAND WILL ALSO BE LOOKING CLOSELY AT WHOLLY OWNED SUBSIDIARIES AND IN THE FUTURE PLANS TO MAKE CERTAIN THAT FOREIGN PARENTS INVOLVED UNDERSTAND THAT THEY ARE RESPONSIBLE FOR THE SUBSIDIARIES' ACTIVITIES AND OBLIGATIONS SHOULD A LENDER OF LAST RESORT SITUATION ARISE, SUCH AS ISRAEL-BRITISH BANK LTD. WHEN DISCUSSING BOTH WHOLLY OWNED SUBSIDIARY AND CONSORTIUM PARENT SITUATION, BANK OF ENGLAND OFFICIALS TAKE VIEW THAT A FINANCIAL INSTITUTION IN LONDON BENEFICIALLY OWNED BY FOREIGNERS SHOULD NOT EXPECT AS A MATTER OF RIGHT THAT EITHER BANK OF ENGLAND FUNDS OR UK RESERVES WILL BE USED TO ASSIST THE INSTITUTION IF IT GETS INTO TROUBLE. THIS IS THE BASIC PRINCIPLE. IF BOE HELP WERE TO BE OFFERED IN CONNECTION WITH A FOREIGN BANK IN DIFFICULTY IN LONDON IT MOST LIKELY WOULD BE OFFERED IN A RELATIVELY MODEST WAY AND IN THE FORM OF INTER-CENTRAL BANK ASSISTANCE, NOT DIRECTLY TO A PRIVATE FOREIGN OWNED FINANCIAL INSTITUTION.

3. AFTER THE LLOYDS BANK FOREIGN EXCHANGE LOSSES IN LUGANO BANK OF ENGLAND IS LOOKING MORE CLOSELY AT FOREIGN BRANCH ACTIVITIES OF MAJOR UK BANKS.

4. LOOKING AHEAD, BOE OFFICIALS SPECULATE THAT THE NEXT 12 TO 18 MONTHS MAY SEE SPECIFIC PROPOSALS FOR INTRODUCTION OF A SECURITIES AND EXCHANGE COMMISSION TYPE INSTITUTION; MORE FORMALIZED LICENSING OF ALL BANKS UNDER BANK OF ENGLAND CONTROL FOLLOWING THE FRINGE AND SECONDARY BANK

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 14461 01 OF 02 061459Z

LIQUIDITY SQUEEZE, I.E, CENTRALIZING BANKING REGULATION AND RESPONSIBILITY FOR THESE INSTITUTIONS UNDER BANK OF ENGLAND RATHER THAN DIVIDED RESPONSIBILITY WITH DEPARTMENT OF INDUSTRY; TIGHTER RULES ON ADVERTISING AND SOLICITATION OF ACCOUNTS; AND SOME CONSIDERATION OF DEPOSIT INSURANCE FOR SAVERS ACCOUNTS. DEPOSIT INSURANCE MIGHT BE LIMITED ONLY TO SMALLER BANKS WITH CAPITAL BELOW A GIVEN AMOUNT; BOE OFFICIALS APPARENTLY CONSIDER IT IS UNTHINKABLE THAT

CLEARING BANKS WOULD GET INTO SUCH DIFFICULTY THAT THEIR DEPOSITS WOULD NEED TO BE INSURED. SOURCES INDICATED THAT

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 14461 02 OF 02 061500Z

42

ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 INR-01 CIAE-00 TRSE-00

FRB-01 RSC-01 ISO-00 /016 W

----- 005728

R 061448Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5418

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 14461

LIMDIS GREENBACK

WHILE IDEAS IN THIS PARAGRAPH ARE UNDER ACTIVE DISCUSSION, SOME ONLY WITHIN BANK, SOME WITH MAJOR MINISTRIES, PARTICULARLY H.M. TREASURY, NO FINAL DECISIONS HAVE BEEN TAKEN.

5. ANOTHER AREA WHERE BOE IS CONSIDERING EXTENDING ITS ROLE IS IN ACTUAL EXAMINATION OF BANKS AS WELL AS EXPANDED STATISTICAL COLLECTION, ALREADY UNDERTAKEN. IF DECISION IS MADE TO EXAMINE DOMESTIC BANKS AND OTHER BANKS OPERATING IN LONDON, QUESTION HAS BEEN RAISED OF USE TO BE MADE OF INFORMATION DEVELOPED THAT MIGHT BE CRITICAL OF FOREIGN BANKS OPERATING IN LONDON. AGAIN, NO DECISIONS TAKEN BUT PRESUMPTION IS ANY SUCH CRITICAL INFORMATION WOULD BE TURNED OVER TO CENTRAL BANK OF FOREIGN COUNTRY CONCERNED.

6. IN REPLY TO OUR QUESTION ABOUT POSSIBILITY OF TOUGHER REGULATIONS ON FOREIGN, INCLUDING U.S., BANKS IN LONDON, ONE KNOWLEDGEABLE SOURCE SAID FLATLY THAT NONE ARE CURRENTLY UNDER CONSIDERATION. BANK OF ENGLAND CONSIDERS US BRANCH BANKS IN LONDON TO BE AN EXTENSION OF THEIR PARENTS AND RECOGNIZES IMPORTANCE OF THEIR ROLE TO UK ECONOMY. THIS IS CONSISTENT WITH VIEW RECENTLY EXPRESSED BY

LABOR MP, DR. JOHN GILBERT, FINANCIAL SECRETARY IN H.M. TREASURY, TO OFFICIAL OF AMERICAN BANKS ASSOCIATION OF LONDON WHEN DISCUSSING ANGLO-AMERICAN DOUBLE TAXATION AGREEMENT THAT QUOTE THE GOVERNMENT FULLY RECOGNIZES IM-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 14461 02 OF 02 061500Z

PORTANCE OF MAINTAINING AND INDEED DEVELOPING LONDON AS AN INTERNATIONAL FINANCIAL CENTER AND WELCOMES ROLE WHICH THE AMERICAN BANKS PLAY IN THIS. WE ARE CONSCIOUS OF THE CONTRIBUTION WHICH THEIR ACTIVITIES MAKE TO THIS COUNTRY'S INVISIBLE EARNINGS AND WOULD NOT WISH TO DRIVE AWAY ANY OF THE BUSINESS THEY AT PRESENT CONDUCT HERE UNQUOTE.

7. COMMENT: EVERY INDICATION IS THAT OVER TIME THE LABOR GOVERNMENT, INCLUDING H.M. TREASURY AND BANK OF ENGLAND, WILL BE TIGHTENING SUPERVISION AND REGULATIONS OVER UK BANKING SYSTEM AND FINANCIAL MARKETS. THERE IS BOUND TO BE SOME IMPACT ON FOREIGN AS WELL AS ON DOMESTIC FINANCIAL INSTITUTIONS. HOWEVER, WE BELIEVE THAT UK OFFICIALS ARE SINCERE WHEN PROFESSING TO RECOGNIZE IMPORTANCE OF U.S. BANKS TO LONDON, BOTH FOR REASONS THEY STATE AND BECAUSE OF AWARENESS OF ROLE U.S. BANKS PLAY IN SERVING AS INDUCEMENT TO PLACING OF EURO-CURRENCY DEPOSITS IN LONDON AND IN PROVIDING SOURCE OF FINANCE FOR NORTH SEA OIL DEVELOPMENT.

SOHM

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANK LAW, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 NOV 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON14461
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740318-0827
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741167/aaaaceqe.tel
Line Count: 200
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUN 2002 by kelleyw0>; APPROVED <26 MAR 2003 by MartinML>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UK BANKING SUPERVISION; POSSIBLE CHANGES IN BRITISH REGULATORY STRUCTURE; OFFICIAL VIEWS ON
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005